Intra-African Air Services Liberalization

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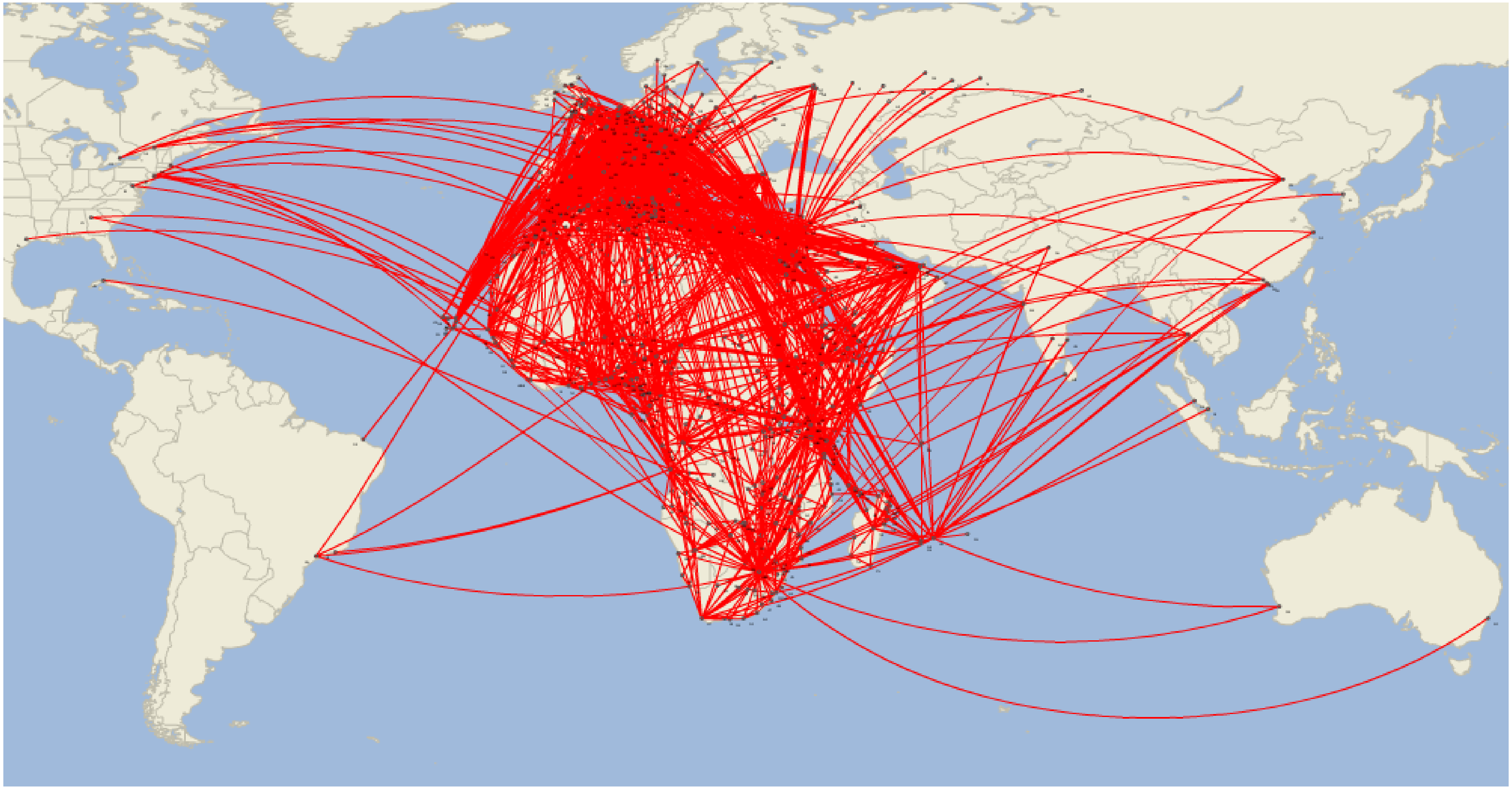
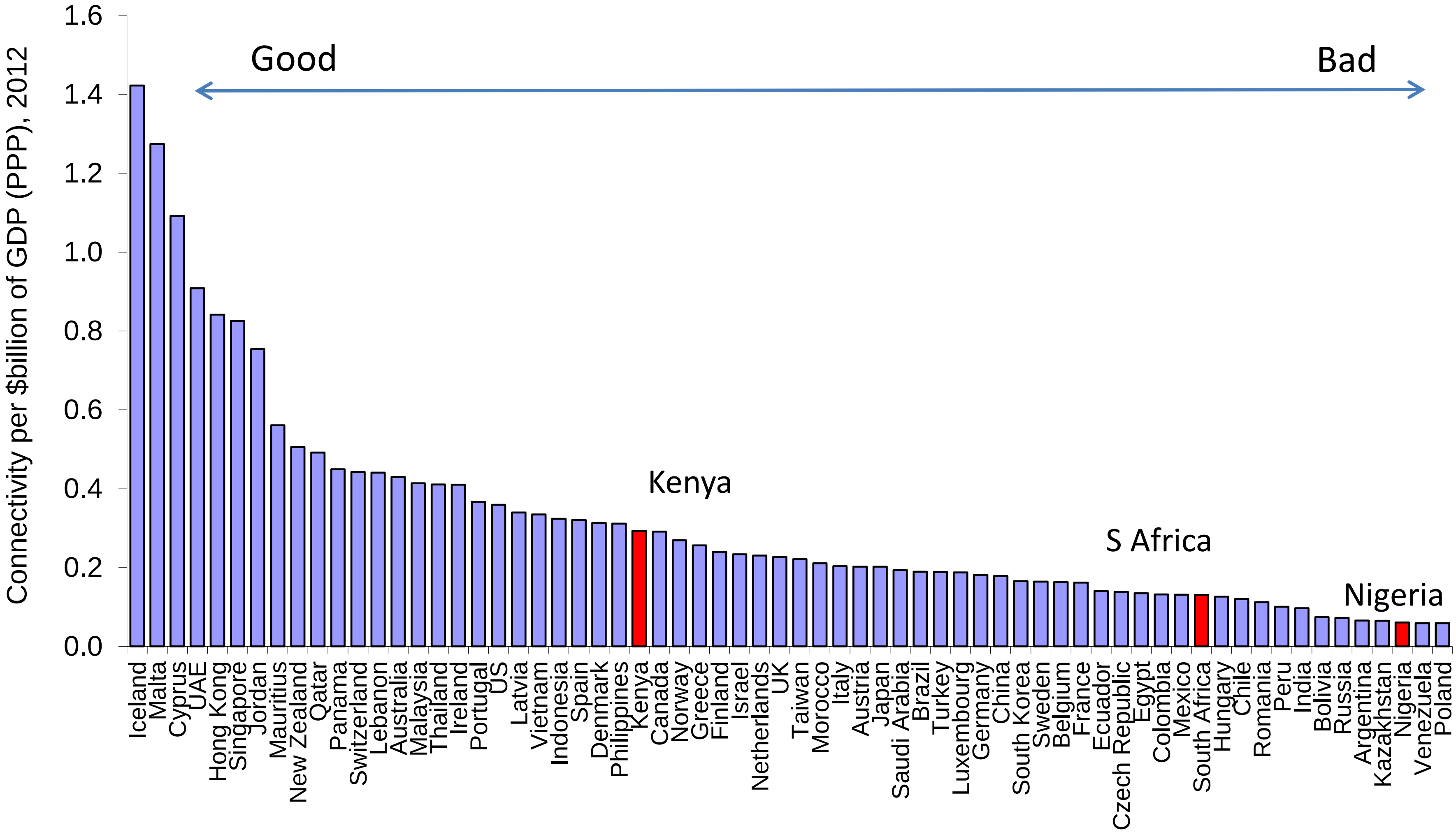
To represent, lead and serve the airline industry

Aviation connects African businesses to world markets



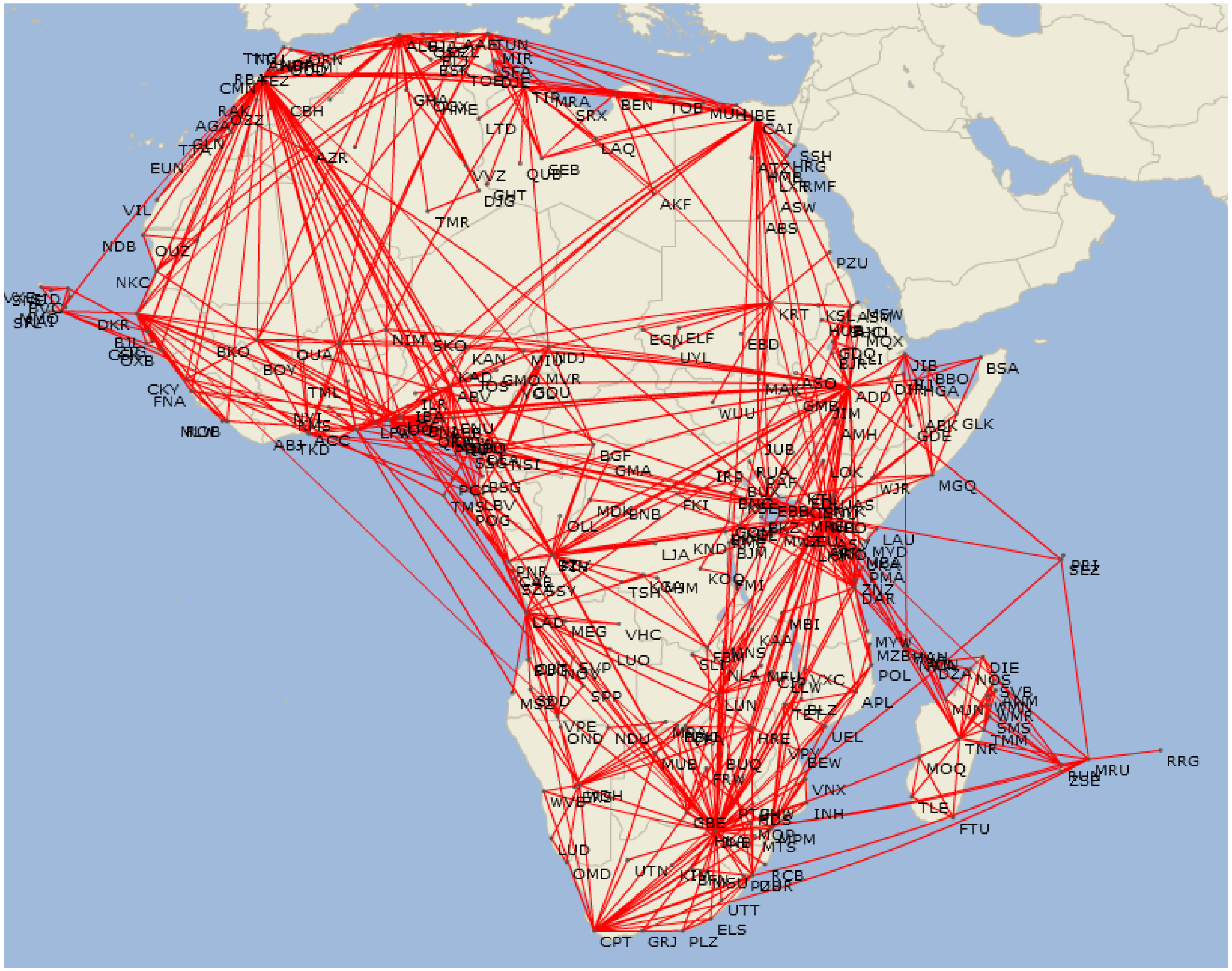
Source: SRS Analyser, non-stop connections, July 2014

But connectivity could be improved in most of Africa



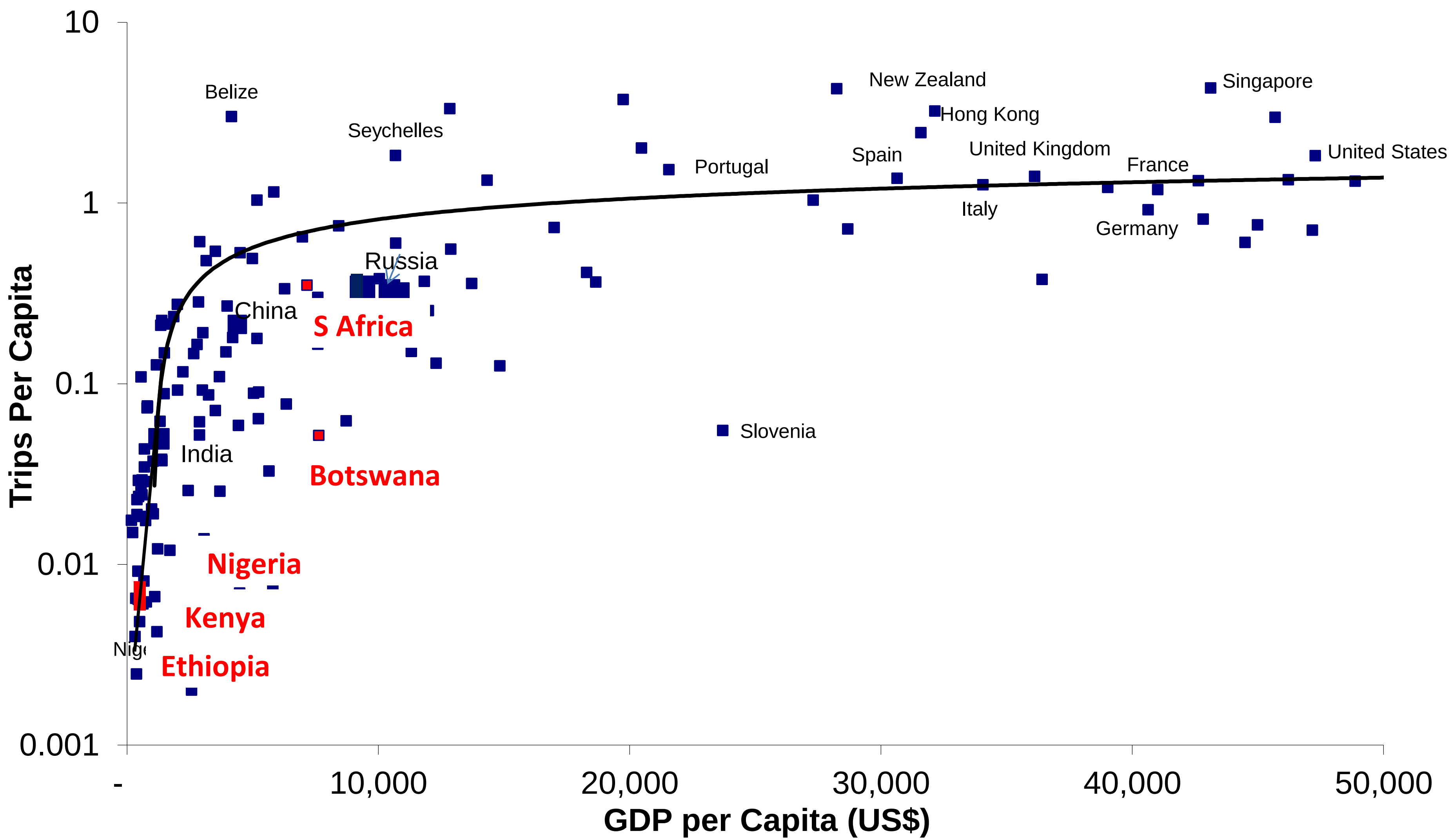
Source: IATA's destination-weighted measure of air transport connectivity

In particular within the continent



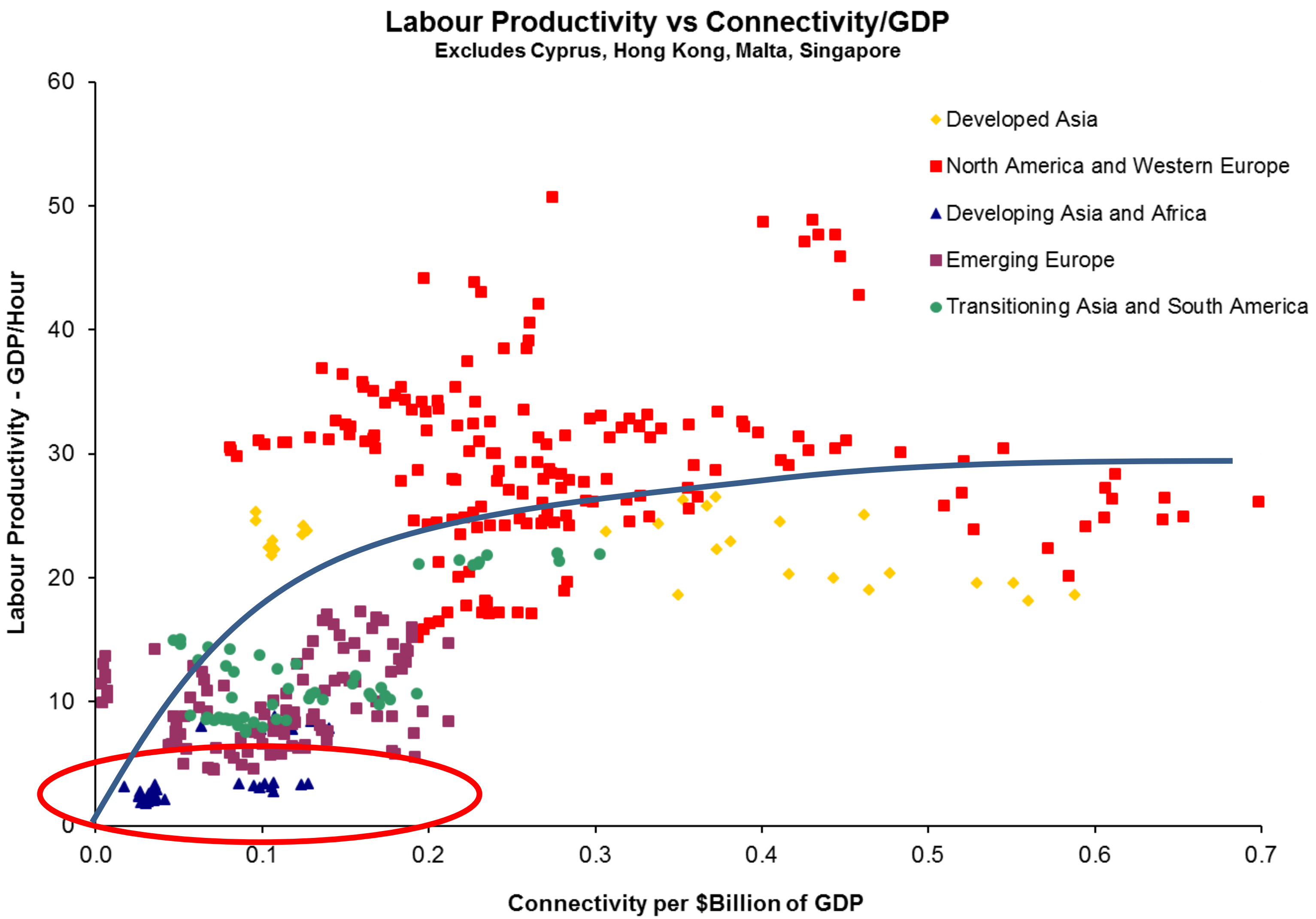
Source: SRS Analyser, non-stop connections, June 2014

Africa is behind the curve on trips per head of population



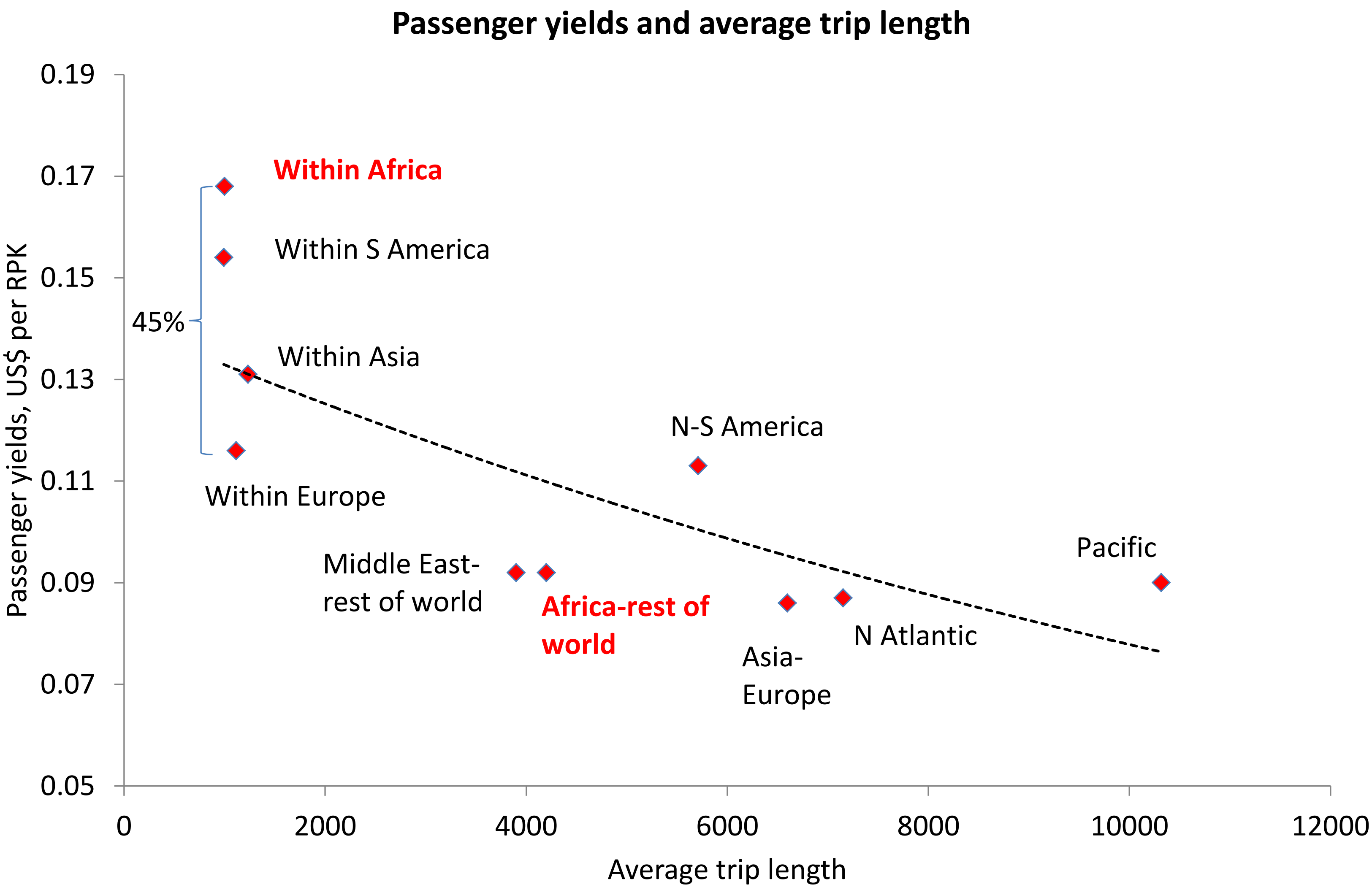
Source: PaxIS Plus, IMF

And is missing out on economic benefits



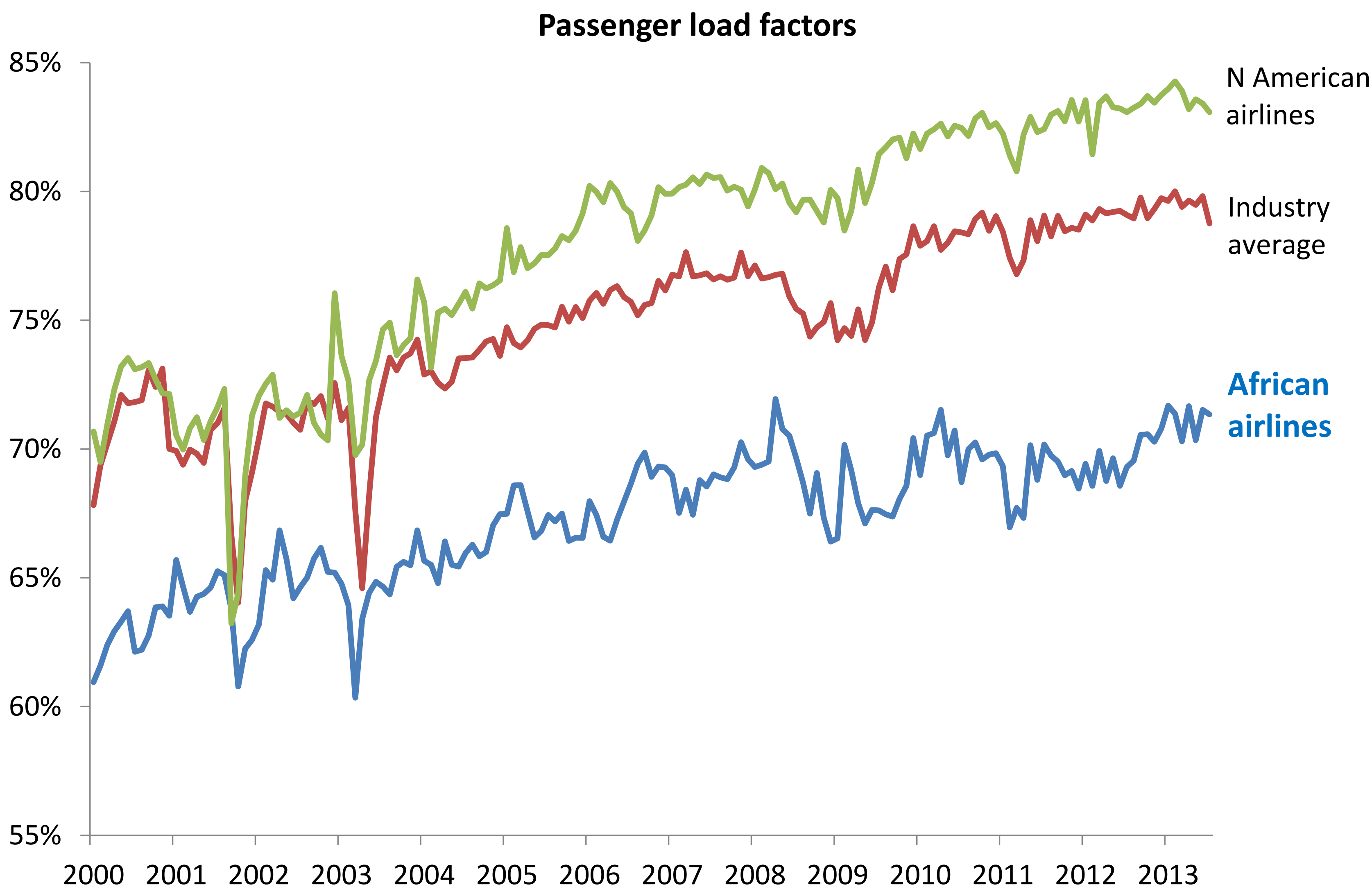
Source: Intervistas

Fares on intra-African routes are high



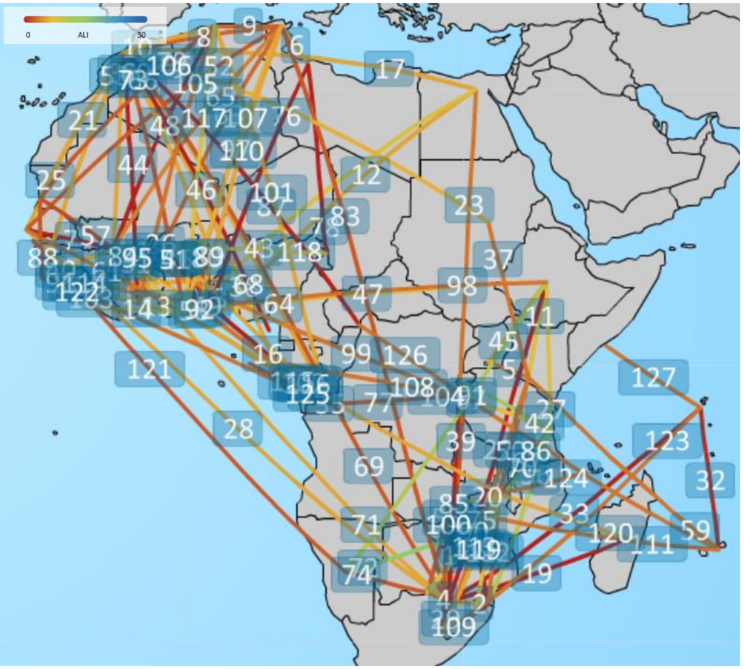
Source: PaxIS Plus, 2013 Q2

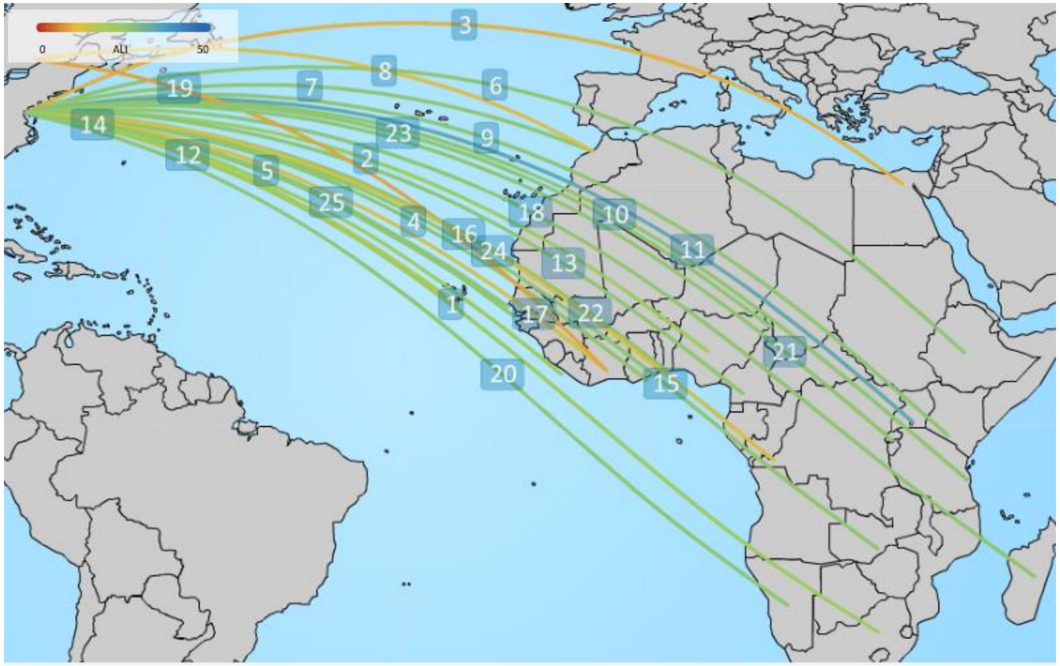
But this doesn’t translate into airline profitability



Source: IATA

Liberalization of intra-African markets a key issue





Source:
WTO Air Services Agreement Projector

Despite successes where markets have opened

Where African nations have liberalized their air markets, either within Africa or with the rest of the world, there have been substantial positive benefits:

- **Kenya - South Africa** (early 2000s):
  - 69% rise in passenger traffic;
- **Ethiopia**'s pursuit of more liberal bilaterals:
  - On intra-African routes with more liberal bilaterals, Ethiopians benefit from 35-38% higher frequencies and 10-21% lower fares.
  - ET one of the largest and most profitable airlines in Africa;
- **Morocco**-EU open skies (2006):
  - 160% rise in traffic;
  - Number of direct routes between Morocco and EU increased from 83 in 2005 to 309 in 2013.
- Permission for LCC service between **South Africa** and **Zambia** (JNB-LUN):
  - 38% increase in passenger traffic;
  - 38% reduction in discount fares;

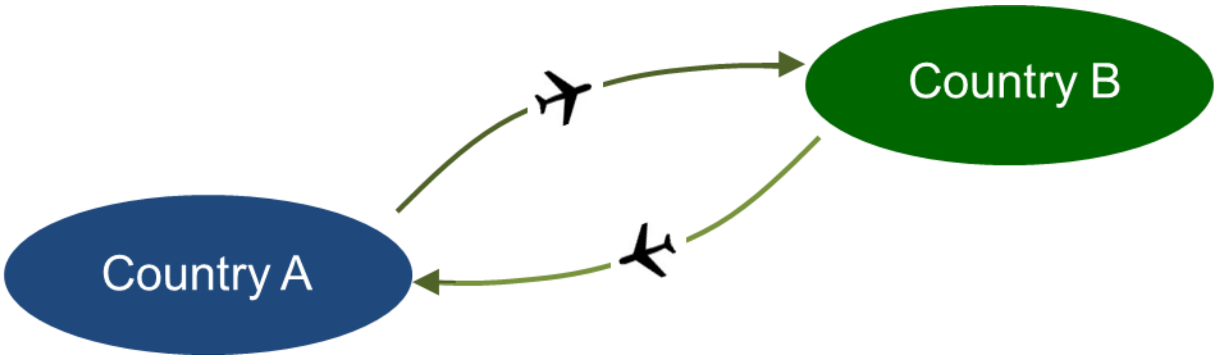
Objective: Understand benefits of liberalization

- Examine the impacts of air service liberalization for 12 countries in Africa:
  - **North**: Algeria, Egypt, Tunisia
  - **East**: Ethiopia, Kenya, Uganda
  - **South**: Angola, Namibia, South Africa
  - **West**: Ghana, Nigeria, Senegal

- Two set of liberalization scenarios considered:
  - liberalization **between all 12 countries** and
  - liberalization **within each sub-region**

Modelling a post-YD aviation network

Impacts of liberalisation were estimated using a gravity model



Total Passenger Traffic Between Country A and B a function of:

- GDP of the two countries
- Trade in services between the two countries
- Distance and intervening countries between A and B
- Characteristics of the air service agreement between A and B (pricing controls, capacity controls, fifth freedoms, etc.)

Implementation of YD not just an aviation issue: Implications for users and the wider economy

Estimate a range of outcomes from liberalisation:

– **Connectivity impacts:**
  - Routes and frequencies;
  - Average fares;

  ⇒ Traffic growth

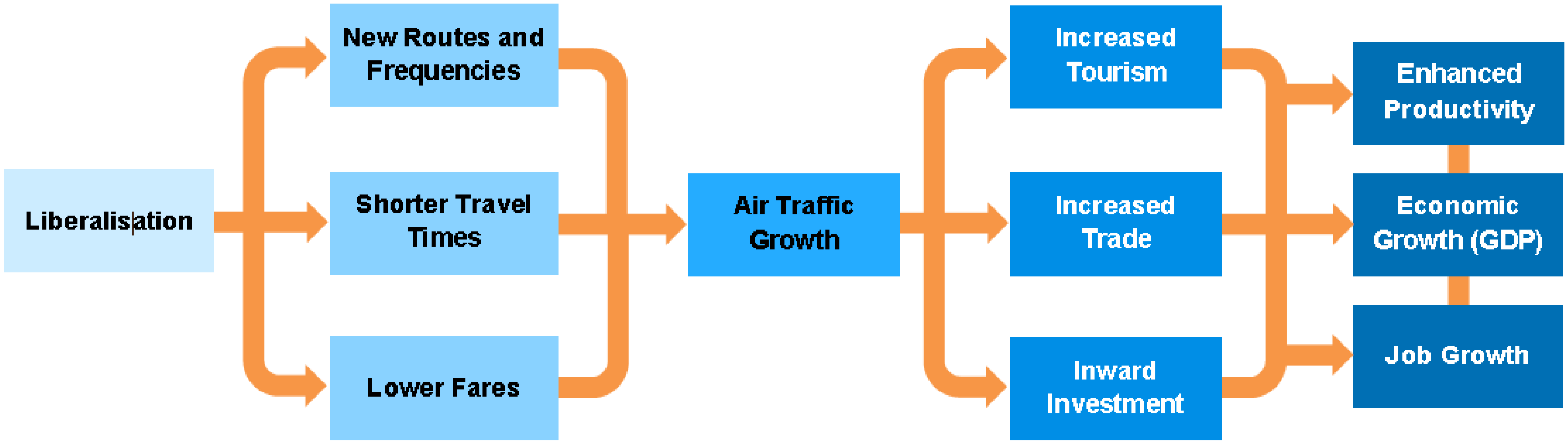
– **Economic impacts:**
  - Trade;
  - Investment;
  - Tourism

  ⇒ Enhanced productivity

  ⇒ Economic growth (GDP)

  ⇒ Increased employment (job creation)

Modelling the benefits – multiple channels



Passengers would benefits in many ways

- **Greater connectivity**:
  - Of the 66 country-pairs between the 12 countries, 34 (52%) had some form of direct service in 2013;
  - With liberalization, 17 additional country-pairs will gain direct services, so that 75% of country-pairs will have direct service.

- **Greater convenience:**
  - Of the 34 country-pairs with direct service in 2013, only 21 had service operated at daily frequencies or better.
  - With liberalization, greater service frequencies can be supported, providing greater convenience and choice for consumers.

- **Time savings:**
  - New routes and greater frequencies will shorten the flying time between many cities..

- **Fare savings**:
  - Passengers are expected to benefit from fare reductions of 25-35%, providing a saving of over US$500 million per annum.

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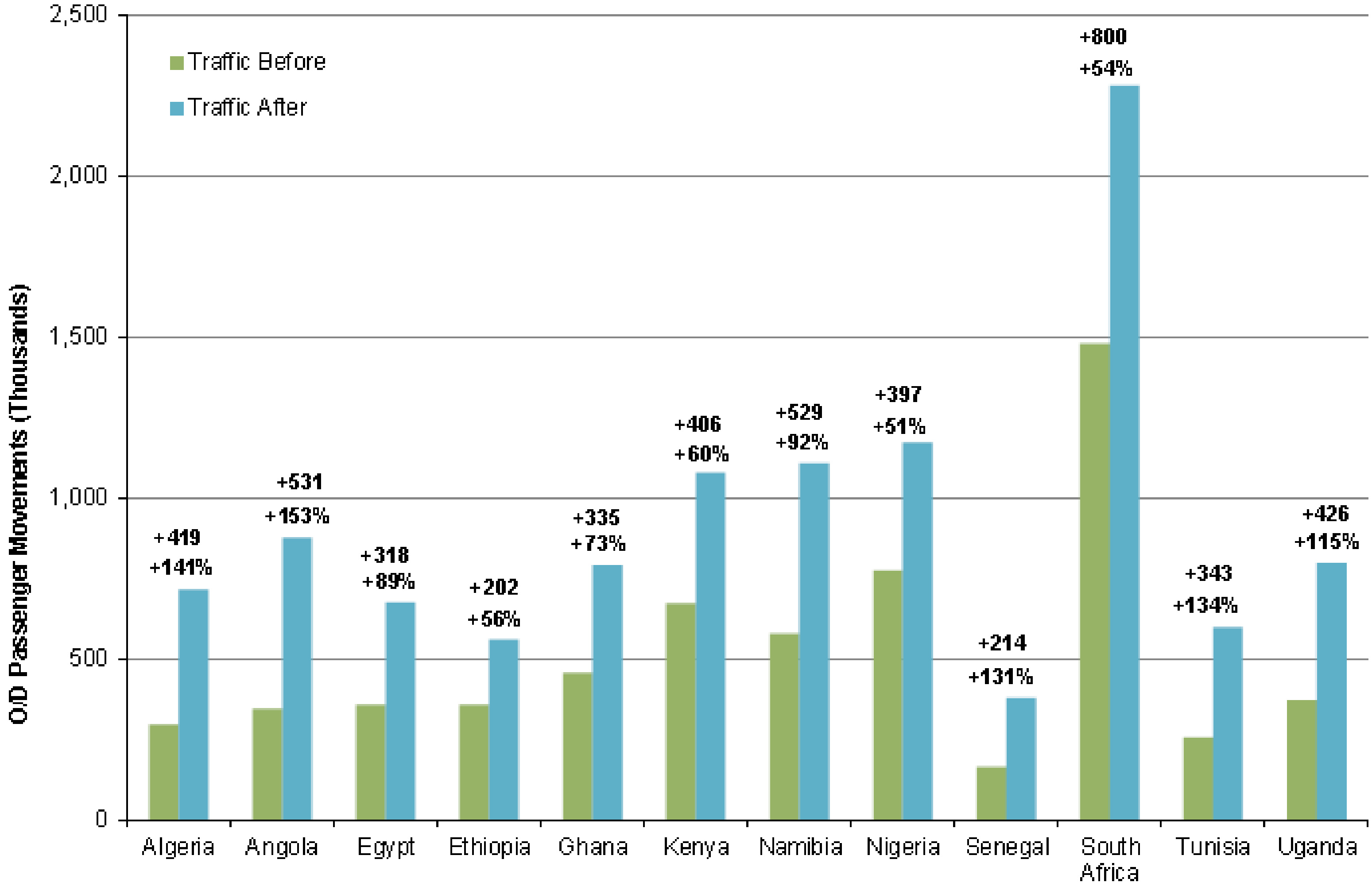
New routes would translate into major time savings

Direct services as a result of liberalization will greatly improve travel times for many passengers

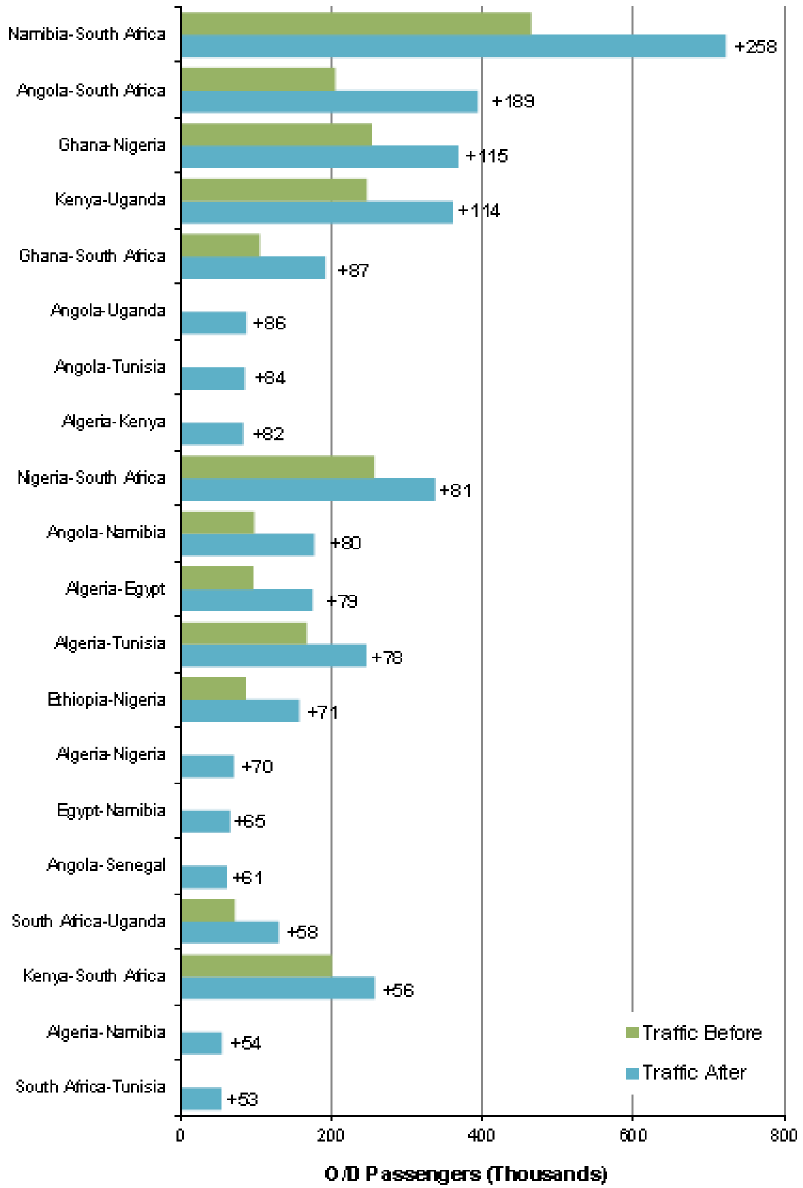
Route	Travel Time Before Liberalisation	Travel Time After Liberalisation	Time Saving
Port Elizabeth (South Africa) - Windhoek (Namibia)	5-6 Hours (1-Stop)	2.5 Hours (Direct)	2.5-3.5 Hours
Port Harcourt (Nigeria) - Accra (Ghana)	5 Hours (1-Stop)	1.5 Hours (Direct)	3.5 Hours
Addis Ababa (Ethiopia) - Port Harcourt (Nigeria)	9-10 Hours (1-Stop)	5 Hours (Direct)	4-5 Hours
Cairo (Eygpt) - Port Harcourt (Nigeria)	9-12 Hours (1-Stop)	5.5 Hours (Direct)	3.5-6.5 Hours
Dakar (Senegal) - Abuja (Nigeria)	6-7 Hours (1-Stop)	4 Hours (Direct)	2-3 Hours
Luanda (Angola) - Durban (South Africa)	6-7 Hours (1-Stop)	3.5-4.0 Hours (Direct)	2.5-3.5 Hours

In many cases, travel times would be more than halved making both business and leisure travel more attractive

Passenger traffic would increase in all markets



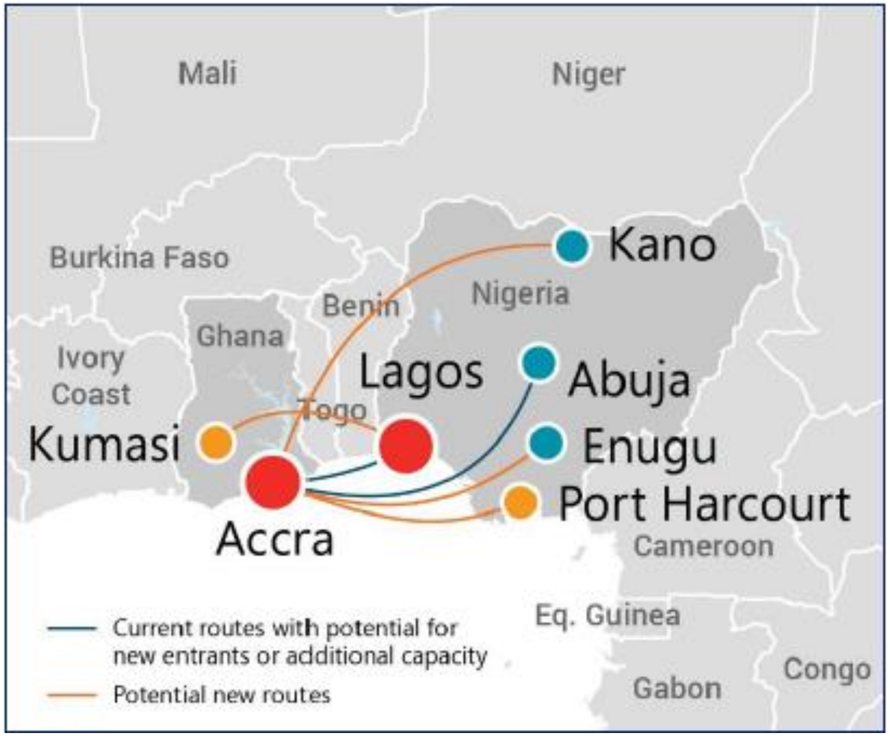
Creating many new opportunities



Benefits to existing and new markets alike:

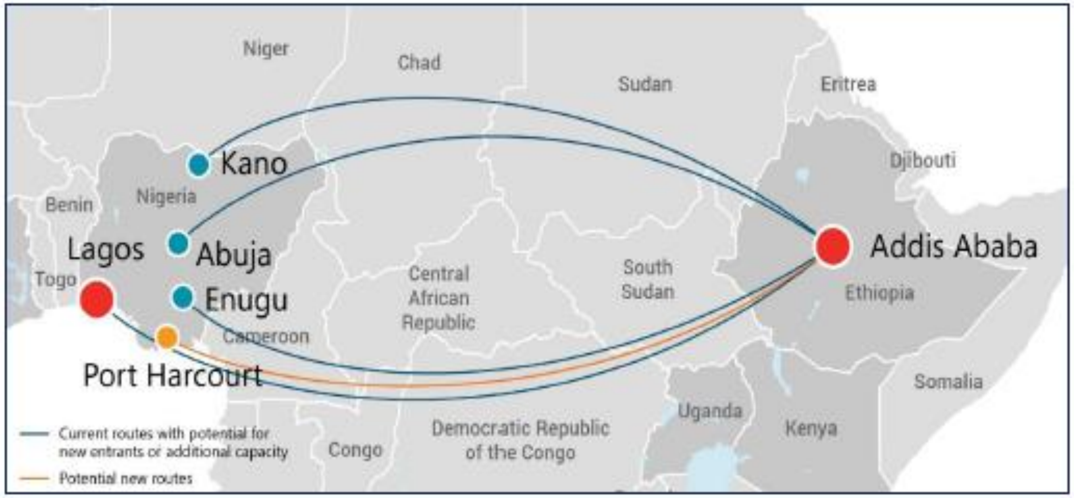
- Largest growth forecast for Namibia – South Africa, the largest existing market in the study (+55%);
- Top 5 growth markets all had direct service in 2013, but are forecast to see growth of between 45 and 92%;
- Important growth in markets without direct service in 2013 (e.g. Algeria -Uganda, Angola - Tunisia, Algeria – Kenya) with less than 1,000 O/D passengers in 2013

New routes and increased frequencies
Route Development: Ghana - Nigeria



	Weekly Freq Each Way	
	Before	**After**
Ghana - Nigeria	40	77
Specific Routes:		
Accra – Lagos	34	48
Accra - Abuja	7	14
Accra – Port Harcourt	None	7
Accra – Kano	None	4
Kumasi - Lagos	None	4
Total	**40**	**77**

New routes and increased frequencies: Ethiopia - Nigeria



	Weekly Freq Each Way	
	Before	After
Ethiopia - Nigeria	17	46
Specific Routes:		
Addis Ababa – Lagos	7	14
Addis – Ababa – Abuja	7	14
Addis Ababa - Enugu	2	7
Addis Ababa – Kano	1	7
Addis Ababa - Port Harcourt	None	4
Total	**17**	**46**

New routes and increased frequencies: Angola – South Africa

	Weekly Freq Each Way	
	Before	After
Angola – South Africa	14	41
Specific Routes:		
Luanda – Johannesburg	11	14
Luanda – Cape Town	3	7
Luanda – Durban	None	7
Lubango - Johannesburg	None	5
Lubango – Cape Town	None	4
Cabinda - Johannesburg	None	4
Total	**14**	**41**

Increased connectivity would boost economic growth

Increased air service and traffic would stimulate economic growth and employment in a number of ways:

- **Aviation Sector**:
  - Additional activity driven directly by additional air services.
- **Tourism Sector**:
  - Air services facilitate the arrival of larger numbers of tourists (both business and leisure); The spending of these tourists can support a wide range of tourism related businesses: hotels, restaurants, theatres, car rentals, etc.
- **Impacts on Trade, Investment and Productivity**:
  - Air transport facilitates market access for both trade in goods and services (new opportunities and lower trade costs);
  - Availability of air transport a key factor in business location decisions;
  - Increased market access enables firms to achieve economies of scale, driving productivity benefits.

Creating new business opportunities

Increased air service and traffic would stimulate economic growth and employment in a number of ways:

- **Aviation Sector**:
  - 38,000 additional jobs

- **Tourism Sector**:
  - 1.23 million additional tourist visits. $1,285 million in incremental tourist spend. 75,000 additional jobs.

- **Impacts on Trade, Investment and Productivity**:
  - $430 million increased trade.
  - $345 million in incremental GDP and an additional 42,000 jobs in the wider economy.

- **Overall Impacts**
  - **$1,3 billion of incremental GDP**
  - **155,000 additional jobs**

National economies would see significant benefits

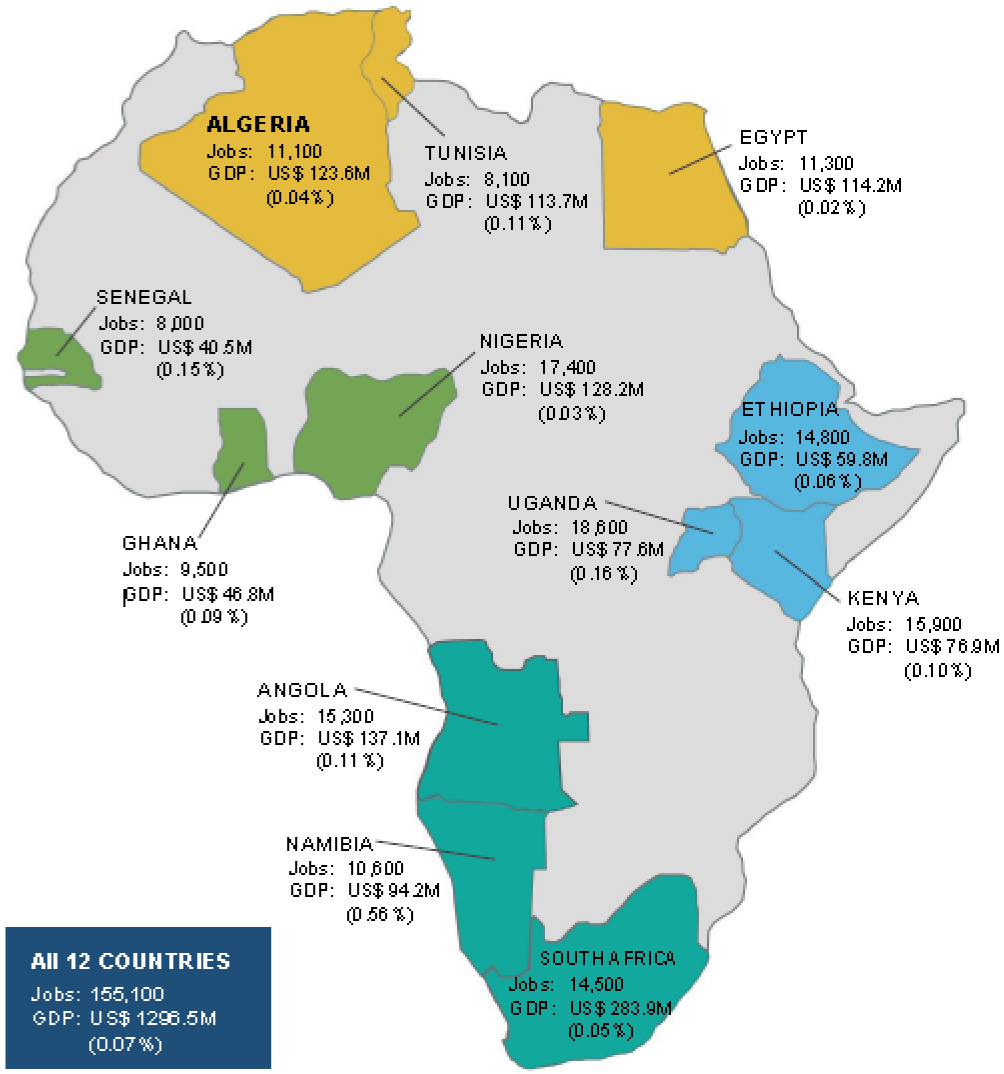


Figure in parenthesis is the GDP impact as a percentage of national GDP.
All financial figures are in 2013 prices.

Even if liberalization is at a regional level

Country	Traffic Increase	Total Employment Impact (Jobs)	Total GDP Impact (US$ Million)
Angola	+268,600 (+78%)	7,900	70.9
Namibia	+337,600 (+58%)	6,900	60.8
South Africa	+446,500 (+30%)	8,100	159.1
% of 12 Country Liberalisation			
Angola	51%	52%	52%
Namibia	64%	65%	65%
South Africa	56%	56%	55%